



17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

MORGAN HILL
FINANCE AND AUDIT COMMITTEE

Morgan Hill Civic Center
Administration Conference Room
17555 Peak Avenue
Morgan Hill, California

Chair
Committee Member
City Treasurer
Staff: Finance Director
Assistant Finance Director
Budget Manager

Larry Carr
Steve Tate
Mike Roorda
Jack Dilles
Tina Reza
Chu Thai

SPECIAL MEETING

Thursday, August 29, 2002

MINUTES

6:10 P.M.

CALL TO ORDER

Chair Carr & Committee Member Tate present; Committee Member Roorda participated by telephone;

Staff: Dilles, Reza, & Thai

DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

BUSINESS:

1. Approval of minutes for July 17, 2002.

The minutes for July 17, 2002 were approved, with Committee Member Roorda abstaining.

2. Proposed Fiscal Policies

Staff presented proposed fiscal policies related to the budget. The current version of the policies reflected changes previously suggested by the Committee for the proposed reserve and designation policies, including stating reserve and designation levels as percentages instead of as dollar amounts. Committee Member Roorda supported the recommended 17% General Fund reserve level because it would protect the City and provide the City Council time to allow staff to recommend strategies to confront fiscal challenges that may arise.

Chair Carr indicated that he believes the designation for economic uncertainty should be used to assist in balancing the budget when the budget is adopted, should City revenues suffer because of an economic downturn, or at the time of a drop in revenues, whereas the designation for emergencies would only be used when an emergency arises. Further, he indicated that the key in responding to economic changes is having time to prudently react. He also indicated that when reserves or designations are drawn down, there should be a plan to replenish the reserves or ongoing designations.

Committee Member Tate indicated rebuilding reserves or designations should be limited to restoring levels to the established policy levels, stated in terms of percentages of revenues, rather than restoring levels to the baseline percentages plus increased amounts based upon inflation or other additional factors. There was general agreement by Committee Members on this approach.

There was a consensus for the need to fully describe, to the extent possible, the purpose of each reserve and designation. This item will be brought back to the next Committee meeting for further review following changes that will incorporate Committee comments. In addition, the Committee requested staff to return with a new specific scenario applying the proposed policies to the current General Fund budget.

3. Investing to Benefit the Local Economy

Staff presented a report, describing the two types of potential and actual investment in the community by the City. First, the City, through the Redevelopment Agency, provides funding for various affordable housing, business improvements, and capital projects through grants, loans, and construction projects. Second, the City normally has idle funds on hand that it places in investments such as LAIF and federal agencies, and these funds may be able to be invested in such a way as to benefit the local community. The discussion focused on the second type of investment. It appears that if the City were to invest in, for instance, certificates of deposit through a local bank, the City would earn a return on investments less than the City would earn on federal agencies.

Committee Member Tate requested that staff explore how an investment of funds with a local

bank could benefit the community. For instance, if the City's investment was used by the bank to bring new businesses to Morgan Hill, increasing jobs and sales tax revenue, how could this be measured? Committee Member Roorda indicated that he believes that it is hard to gauge efficiency in the market, but that it would be worth asking questions of our local banking representatives.

Staff was directed to contact South Valley National Bank and Heritage Bank South Valley to explore ways that potential City investments in these local banks would benefit the local community.

4. Financial and Investment Report for July 2002

Staff presented a brief report. Staff indicated that a final June 2002 monthly report would be available for the September 25, 2002, City Council meeting, at which time Committee Member Roorda would make a presentation to the City Council, on behalf of the Committee, concerning that final report.

5. Future Agenda Items

Committee Member indicated that the Committee should agendaize fire master plan implementation plan financing for a future meeting.

ADJOURNMENT

NOTICE

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The City of Morgan Hill complies with the Americans with Disability Act (ADA) and will provide reasonable accommodation to individuals with disabilities to ensure equal access to all facilities, programs and services offered by the City.

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